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Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Increased Oil Prices: A Threat to African Development

Introduction

Increased petroleum prices virtually eliminate prospects for significant economic growth during 1974 in a majority of the African countries. Economic activity in African countries is heavily trade oriented and closely geared to the economies of major trading partners in Western Europe. Foreign exchange -- already scarce in most African countries -- will be even scarcer because of increased prices for petroleum as well as for finished products from the industrialized countries. Exchange earnings are further threatened by prospects of receiving lower prices for primary commodities because of reduced demand. Lower growth in industrial countries also could erode the flow of foreign aid -- approximately $1.8 billion annually -- and investment. These factors will strike hardest at the small modern sectors that represent the Africans' greatest hopes for development.

In the Africans' favor is their low reliance on oil for generating electricity and for subsistence agriculture. In addition, the African states' near unanimous support of the Arabs against Israel has elicited

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

assurances of Arab economic aid, although the amount of assistance so far has been limited. Only four Sub-Saharan states -- Nigeria, Gabon, Angola, and Congo -- are oil producers.

Discussion

The African Gainers

Of the four Sub-Saharan oil producers, Nigeria is by far the largest with production of over 2.2 million b/d. Although pledged not to increase production to benefit from the oil crisis, Lagos nevertheless is gaining handsomely from the current high prices. Its high quality, non-embargoed oil is in greater demand than ever. Government-owned oil recently sold for $22.60 per barrel. In addition, Nigeria has raised the posted price for its crude twice since the embargo began. The new posted price of $14.69 raises Nigeria's take to about $8.60 a barrel, compared with $2.35 a barrel before the first price increase in November. Nigerian government revenues from oil will be an estimated $7.9 billion in 1974, more than three times the 1973 figure.

Effects of the embargo on the other Sub-Saharan producers -- Angola, Congo, and Gabon -- has been mixed.

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Angola, as a Portuguese province, is included in the Arab embargo of Portugal and its oil production of about 160,000 b/d is subject to Portuguese demand for domestic use. Although the Congo is a modest producer of oil -- 39,000 b/d in 1973 -- it has no refinery and is suffering from a shortage of imported petroleum products. Gabon has fared better. Production is about 145,000 b/d, and provides about one-fourth of gross domestic product. In recent months, Gabon increased the posted price for its oil, became an associate member of OPEC, and moved to increase government participation in the foreign oil companies. There are also a large number of potential African oil producers. Extensive exploration has been carried out and discoveries have been made in a number of countries. If prices remain high, exploitation of discoveries now considered uneconomic may become commercially feasible providing the countries with much needed foreign exchange.

Impact on Non-Producing Sub-Sahara

The new oil prices will force most Sub-Saharan non-producing countries to reduce oil imports substantially in 1974. Combined petroleum imports in 1971 averaged 330,000 b/d, almost all European refined products and

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Arab and Iranian crude. (See Table 1) Normal growth, about 5% to 10% annually, would have increased imports to 375,000 - 400,000 b/d in 1974. Actual imports will depend on the countries' balances of foreign exchange and trade and their willingness to take on Arab loans. Formidable problems of refining, distribution, and pricing sharply limit the possibility of significantly alleviating the non-producers' plight by increasing supplies from the Sub-Saharan producing countries.

If the demand for oil were unresponsive to price changes, the high oil prices imposed in 1974 would triple Sub-Sahara's combined cost of petroleum imports compared to 1971. (See Table 2) All of the non-producing countries would be adversely affected, but the capability of individual states to absorb the added costs would vary widely. Foreign exchange reserves and generally favorable trade balances would carry seven of the states for a year or so, despite their moderately heavy reliance on oil imports. (See Table 3) The impact on the trade position of the remaining 33 non-producers would be severe. The foreign exchange reserves of these states averaged less than $20 million per country in 1972 and their combined adverse trade balance totaled more than $1

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 1

Sub-Saharan Africa: Dependence on Petroleum Imports, 1971 a/

Thousand barrels per day b/

	Crude				Refined		
	Supply		Demand		Supply	Demand	
	Production	Imports	Exports and Re-exports	Refinery Throughput	Imports	Domestic c/ Consumption	Exports and Re-exports
Total	1,760	210	1,680	280	120	310	80
Producers	1,760	None	1,680	70	30	40	50
Nigeria	1,530	None	1,490	40	10	10	40
Other	230	None	190	30	20	30	10
Non-producers	None	210	None	210	90	270	30

a. Excludes South Africa.
b. Components may not add to totals due to rounding.
c. Includes bunkering.

CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 2

Sub-Saharan Africa: Estimated Costs of Petroleum Imports, 1971 and 1974 a/

	1971	1974
Total annual costs (Million US $)	500	1,500
Crude imports (b/d)	210	230
Price (US $/b)	2.31	9.68
Cost (Million US $)	180	810
Refined imports (b/d)	120	130
Price (US $/b)	7.31	14.68
Cost (Million US $)	320	690

a. Projections for 1974 assume a 5% annual increase in the volume of imports since 1971. South African imports are excluded.

CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 3

Sub-Saharan Africa: Foreign Exchange, Trade, and Oil Imports a/

Million US $

	Gold and Foreign Exchange (1972)	Trade (1972) Exports	Imports	Balance	Oil Imports b/ 1971	1974
Total	2,500	10,310	10,530	-220	500	1,500
Three major producing countries	550	2,945	2,090	855	30	65
40 non-producing countries c/	1,950	7,365	8,440	-1,075	470	1,435
Seven with modest reserves	1,295	3,205	2,995	210	205	730
Ethiopia	165	155	195	-40	15	60
Ghana	180	490	375	115	20	85
Ivory Coast	115	600	465	135	20	90
Kenya	315	330	500	-170	55	220
Tanzania	140	285	355	-70	45	140
Zaire	160	605	560	45	20	75
Zambia	220	740	545	195	30	60
33 with very limited reserves	655	4,160	5,445	-1,285	265	705

a. Excluding South Africa.
b. Because data for Sub-Saharan countries are incomplete, estimates for 1971 are based on the volume of imports and average prices for Arab crude and European products. For some countries the estimates may vary from the actual import costs. Projections for 1974 assume a 5% annual increase in the volume of imports since 1971, and constant prices equal to the posted price on 1 January 1974.
c. Includes Congo.

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9
CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

billion. If they maintained previous levels of oil imports in 1974, their average negative trade balance would be increased 50%. Without concessionary prices or increased aid, a large cutback in imports appears inevitable.

Many of the African countries are scrambling to find sources of petroleum imports at concessionary prices. A number of countries have approached Nigeria, hoping to buy oil at low prices. Nigeria, with a per capita annual income of only about $125, however, badly needs oil revenues for its own development and has not been willing to lower prices. The countries have been more successful in negotiating country-to-country supply deals with Arab producers, but not at concessionary prices. Some countries may be successful in arranging barter deals with the Arabs. Ivory Coast has made arrangements with Algeria to trade traditional exports for oil if supplies fall short. Government attempts to maintain low prices may add to African shortages. Dahomey, for example, is now suffering a fuel crisis, since the oil companies have refused to continue to import petroleum products at low government-controlled prices. Senegal also is freezing prices of petroleum

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

products. For countries unable to arrange special deals for oil, supplies will certainly fall, as the western oil companies ship to consumers who are more willing and able to pay the going rate.

A number of the non-producers already are trying to curtail demand. For example Sudan and Mozambique are rationing gas, hours for gas stations are reduced in Malawi and Botswana, retail prices for gas have been increased in Mali and Kenya, Liberia and Ghana have reduced bunkering services, and allocations to airlines were reduced in Zaire. Prospects for easing demand for oil by substituting other fuels are poor because most consumption is in gasoline and diesel-fueled combustion engines -- automobiles, trucks, farm tractors, and industrial engines.

Some of the Africans are increasing their control of foreign enterprises and major exports. Zaire and the Congo have nationalized foreign petroleum distribution companies since the embargo. Other countries, noting the success of OPEC in increasing oil prices, are considering the forming of similar organizations to keep prices high on their export commodities. The major African copper producers -- Zaire and Zambia -- are already

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

members of the Intergovernmental Council of Copper Exporting Countries (CIPEC). Major bauxite producing countries plan to meet in Guinea in February to attempt to form a producers' organization.

Impact on Six Selected Non-Producers

The impact on six selected non-producers, ranging from one of the poorest to several of the better off states, illustrates the great diversity of the non-producers' problems. Assuming no slackening of demand, the estimated oil import bill for the six -- Ghana, Ethiopia, Kenya, Mali, Zaire, and Zambia -- would be about $500 million in 1974, three times the 1971 cost. Each of the countries will suffer from 1974's higher oil prices, but they have widely varying capabilities to cope with the situation.

Several of the countries have foreign exchange reserves and export earnings adequate to carry them for a year or more, while others are less fortunate. (See Table 4) Zambia's trade surplus has been more than sufficient to cover the increased cost of oil imports. At the other extreme, Mali has no foreign exchange reserves, ran a trade deficit before the increased oil costs, and has an external debt more than 10 times

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 4

Sub-Saharan Africa: Trade and Payments Positions of Selected Countries in 1972

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Imports (million US$)	375	195	500	69	560	545
Of which (percent):						
Transport equipment and machinery	25	33	39	28	31	42
Manufactured goods	30	30	25	23	28	31
Chemicals and crude materials	20	16	15	6	14	10
Food and beverages	12	13	12	34	21	10
Petroleum	13	8	9	9	7	7
Exports (million US$)	490	155	330	28	605	740
Of which (percent):						
Minerals	15	--	--	--	79	96
Manufactured goods	1	--	12	2	3	1
Agricultural goods	80	100	70	75	18	1
Other	4	--	18	23	--	2
Trade balance (million US$)	115	-40	-170	-41	45	195
Gold and foreign exchange reserves (million US$ June 1973)	180	165	315	0	150	220

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 4 (continued)

Sub-Saharan Africa: Trade and Payments Positions of Selected Countries in 1972

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Major foreign exchange earner	Cocoa	Coffee	Tourism, coffee	Cotton, peanuts	Copper	Copper
External debt (million US$ end 1971)	822	205	265	293	290	538
External debt as % exports	168	132	80	1,046	48	73

CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

its annual exports. The other countries fall somewhere in between. Ghana may be able to maintain a small trade surplus even with the increased oil prices. Zaire's small trade surplus will be reversed, the size of the deficit depending on prices received for copper exports. Ethiopia's deficit will increase by about 67% to $125 million, if other trade factors remain stable. Kenya's trade deficit will increase, but not the full amount of the increment to the oil import bill since Kenya refines and re-exports about one-third of the imported crude.

Foreign exchange resources will be strained further by increased prices of finished products imported from industrialized countries. Machinery, transport equipment and manufactured goods make up over half of the imports of each of these countries. Increased oil import costs plus anticipated increases in the costs of non-oil imports could boost the total import bill of these countries by about one-third.

Financing increased import costs will be made more difficult by a decrease in export earnings in at least half of the six countries. Because of slower growth expected in the developed countries, a decline in world-wide demand for copper will cut export earnings in

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Zambia and Zaire. Tourism, Kenya's major foreign exchange earner, has already begun to suffer. Demand for the other countries' major exports -- cocoa, coffee, cotton and peanuts -- probably will be largely unaffected. Increased fertilizer costs will not be significant in the imports of the selected countries. The cost of internal transport will be increased and service may be subject to disruption.

Each of the selected countries receives foreign aid (largely from western Europe), the amount of dependence on aid varying. (See Table 5) In Mali annual aid almost equals total exports; in Zambia aid is only about 3% of the value of exports. Each country will face a further squeeze on its ability to pay increased import costs if foreign aid commitments from developed countries are reduced more than new Arab aid.

OPEC Relief

The Black African countries have given nearly unanimous support to the Arabs -- of the 41 OAU members, only Lesotho, Swaziland, Malawi and Mauritius still have formal ties with Israel -- and are now moving to cash in on the Arab promises of assistance given at the Algiers summit in November. At the minimum, the OAU

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Table 5

Sub-Saharan Africa: Dependence on Foreign Aid of Selected Countries

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Total aid a/ (million US$)	61.26	47.21	71.25	24.65	87.74	20.19
Aid per capita (dollars)	7.34	1.91	6.54	5.05	4.90	5.02
Aid as % of GNP	3.9	2.7	5.0	5.6	5.4	1.7

a. Net annual average receipts from DAC countries and from multilateral agencies 1969-71.

CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

is seeking to negotiate a long-term agreement with Arab producers to supply oil directly to each OAU member state. Several African countries -- Zambia and Zaire for example -- have already concluded special state-to-state supply deals with the oil producers. The Africans will also press for concessionary oil prices, but are not optimistic on this issue.

The Arabs have made some small provisions for meeting African demands for aid. They have agreed to establish an Arab Bank for Agricultural and Industrial Development in Africa to be capitalized at between $195 and $500 million, and they plan to set up a $200 million revolving fund to provide loans to African countries hurt by rising oil prices. There have also been reports of possible joint Arab/African projects in several countries, particularly in the mineral processing and refining industries.

Many African governments were clearly hoping for a larger Arab response. Although the revolving fund will help finance the higher foreign exchange costs for the African countries, many will have difficulty in repaying these loans. Moreover, $200 million may not go very far considering the number of African countries that need help. The Arabs have put the burden on the

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9

OAU for establishing the criteria for loans and for arranging the transportation of Arab oil to Africa. African oil producers and those countries judged by the OAU to be in good financial shape may not be eligible for loans.

CIA/OER
5 February 1974

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010161-9